The Actuarial Profession
making financial sense of the future

consultation response

Department for Work and Pensions

The Pension Protection Fund (Miscellaneous Amendments) Regulations 2010

January 2010

About The Actuarial Profession

The Actuarial Profession is governed jointly by the Faculty of Actuaries in Edinburgh and the Institute of Actuaries in London, the two professional bodies for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuing professional development and a professional code of conduct supports high standards reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business's assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals, and advise on social and public interest issues. Members of the Profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

The Profession also has an obligation to serve the public interest and one method by which it seeks to do so is by making informed contributions to debates on matters of public interest.

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caxton.ppf-responses@dwp.gsi.gov.uk 15 January 2010

Mr John Isaac
Department for Work and Pensions
7th Floor Caxton House
Tothill Street
London SW1H 9NA

Dear Mr Isaac

The Pension Protection Fund (Miscellaneous Amendments) Regulations 2010

Thank you for providing The Actuarial Profession with the opportunity to respond to the consultation issued in October 2009 on the above regulations.

Consultation Question (b) – ***whether the provisions work for Career Average Revalued Earnings schemes***

We believe that the amendments to paragraphs 10 and 14 of schedule 7 of the Pensions Act 2004, as set out in proposed regulations 26(2)(a) and 26(3)(a), should refer to the initial annual rate of lump sum, not the initial annual rate of pension.

The consultation document confirms that revaluation is treated differently for final salary and CARE schemes, but the proposed changes only allow for the inclusion of revaluation in a CARE scheme prior to leaving the scheme or entering an assessment period (whichever is the earlier). Revaluation after this time is provided under the Act in the same way for final salary and CARE schemes (in paragraphs 11(4)(b) and 14(4)(b) of schedule 7 of the Pensions Act 2004), at 2.5% pa or RPI if lower, regardless of the revaluation that would apply under the scheme rules. Bearing in mind the comments in the consultation document and the fact that CARE scheme revaluation in deferment may in some cases be less generous than 2.5% pa (or RPI if lower), we question whether this is consistent with the policy intention.

Consultation Question (c) – t*he rate of interest and the point from which it would be charged in the event of late payment of the pension protection levy*

It is proposed that interest should become payable 28 days after the date of issue of the PPF levy invoice, regardless of when the invoice is received by the scheme. Not only is this a tight deadline, but it would also appear to be unduly unfair for schemes that appeal or those where the invoice is not received (e.g. where it is sent to the wrong address).

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We suggest that interest only becomes payable after a set period beginning with the later of:-

- the date of receipt of the PPF levying invoice; or
- the date of the final determination of an appeal of the invoice.

If you have any questions or would like to discuss any of these matters further, please do not hesitate to contact us. Should you wish to do so, please contact Martin Hewitt, Pensions Practice Manager on 0207 632 2185 or via Martin.Hewitt@actuaries.org.uk.

Yours sincerely

Robert Hails
Chairman, Consultations Group, Pensions Practice Executive Committee

Please reply to Staple Inn